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Remarks

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Executive Secretary

6 Nov 89

Date



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United States Department of State

Washington, D.C. 20520

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November 2, 1989

MEMORANDUM TO:

COLONEL GEORGE P. COLR
Executive Secretary
Department of Defense

MS. PATRICIA CORKEN
Executive Secretary
Department of Commerce

MS. SUE NELSON
Executive Assistant to the Secretary
and Executive Secretary
Department of Agriculture

MR. BRENT SCOWCROFT
National Security Affairs Advisor
The White House

MR. GARY EDSON
Chief of Staff
U.S. Trade Representative

CAPTAIN ANTHONY MANNES
Executive Assistant to the
Chairman
Joint Chiefs of Staff

MR. H. LAWRENCE SANDALL
Executive Secretary
Central Intelligence
Agency

MS. EMILY L. WALKER
Executive Secretary
Department of the Treasury

SUBJECT: PCC Meeting on U.S.-Soviet Joint Commercial Commission
Meeting

Please transmit the attached meeting notification and paper
to principals representing your agency

ISR
J. Stapleton Roy
Executive Secretary

Attachments:

Department of Commerce paper "Overview of U.S.-Soviet Trade
Issues for the Joint U.S.-U.S.S.R. Commercial Commission,
November 15-16, 1989"

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DECL: OADR

B-413-1R



8925629
United States Department of State

Washington, D.C. 20520

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November 2, 1989

MEMORANDUM

TO: PCC PARTICIPANTS

FROM: Curtis W. Korman, ^{cwk} Deputy Assistant Secretary
Bureau of European and Canadian Affairs
Department of State

SUBJECT: PCC Meeting on U.S.-Soviet Joint Commercial Commission Meeting

A meeting to discuss the November 15-16 meeting of the U.S.-Soviet Joint Commercial Commission will be held as follows:

DATE: Wednesday, November 8, 1989.

TIME: 10:00 A.M.

LOCATION: EUR Conference Room
Room 6226A
Department of State

AGENDA: Discuss U.S.-Soviet Joint
Commercial Commission Meeting

Principals plus one are invited to attend the meeting. Participants should phone their attendance to Ms. Frances Fullwood 647-9370.

Attachments:

As stated.

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DECL: OADR

Drafter: EUR/SOV/ECOM: JDeane ~~to~~
Wang #5204E 11/02/89 x79370

Cleared: EUR: CKanman ~~to~~
EUR/SOV/ECOM: JHerbst ~~to~~
EUR/SOV: JTefft ~~to~~
KB: MHubbell ~~to~~

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OVERVIEW OF U.S.-SOVIET TRADE ISSUES FOR THE JOINT U.S.-U.S.S.R. COMMERCIAL COMMISSION NOVEMBER 15-16, 1989

BACKGROUND -

The purpose of this memorandum is to review the agenda, objectives, and policy issues for the U.S. delegation to the eleventh session of the Joint U.S.-USSR Commercial Commission (JCC) to be held in Washington, November 15-16, 1989. The U.S. delegation will be headed by Secretary Mosbacher. The Soviet delegation will be headed by Konstantin Katushev, Soviet Minister Foreign Economic Relations.

The JCC was established in 1972 as a mechanism for regular official discussion of trade prospects and problems. The CC met annually until the 1980 meeting was cancelled because of the Soviet invasion of Afghanistan. Meetings resumed in 1985 and have proceeded annually since then, alternating between Washington and Moscow. The U.S. side of the Commission is comprised of the Departments of Agriculture, Commerce, State, and Treasury; the Office of the U.S. Trade Representative, and the National Security Council.

The JCC is preceded each year by a meeting of the "Working Group of Experts" (WGE), which reviews economic developments and prospects in each country and lays out the agreed plans for the JCC meeting. The WGE met September 6-7, 1989, in Washington, chaired by Assistant Secretary Duesterberg and Deputy Minister Chumakov.

SETTING

This meeting of the JCC takes place in an environment significantly different from earlier meetings. President Bush has announced his policy on U.S. relations with the USSR, which includes initiatives with important implications for commercial and economic relations. The President has laid out the goal of integrating the Soviet Union into the community of nations, stating that as the USSR moves toward greater openness and democratization, we will match their steps with steps of our own.

Most importantly for US-Soviet trade relations, the President has discussed the possibility of a waiver the Soviet Union under the Jackson-Vanik Amendment. He has told the Soviets that should the USSR codify its emigration laws in accord with international standards and implement its laws faithfully, he is prepared to work with Congress of a temporary waiver of the Jackson-Vanik Amendment, opening the way to extending Most Favored Nation treatment (MFN) to the USSR.

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Meanwhile, the Soviet Union has announced plans to shift resources from military to civilian sectors and to increase dramatically investment in consumer industry and services. Under perestroika, the Soviets are introducing new steps to decentralize foreign and domestic economic activity, and allow formation of private enterprises. But economic growth is slowing in the Soviet Union, and economic confusion is rising as the old command economy system is dismantled without adequately rapid replacement by market signals. Reforms are being implemented hesitantly and to the increasing dissatisfaction of producers, consumers, and bureaucrats.

The U.S. delegation to the 1989 JCC faces the challenge of developing and reaching agreement with the Soviets on steps to implement the President's policy and take advantage of changes underway in the Soviet Union.

AGENDA

The agenda for the JCC has been agreed to as comprising:

1. Review of the Status of Bilateral Trade
2. Report of the Working Group of Experts
3. Expansion of Trade and Economic Relations, Including Market Access and New Forms of Economic Cooperation
4. Trade Promotion and Business Facilitation

The policy issues and decisions regarding promotion or facilitation initiatives are all contained in the latter two items of the agenda.

TRADE AND ECONOMIC RELATIONS

In recent months the Soviets increasingly have been voicing growing dissatisfaction with the course of trade relations, and Soviet officials have stated that this will be the major theme their delegation to the JCC will press. Soviet representatives have noted their disappointment that trade relations have not improved in tandem with improvements elsewhere in the bilateral relationship.

The Soviets acknowledge that the U.S. side has always said trade cannot improve without fundamental improvements in other aspects of the relationship -- particularly human rights. They then note that emigration and other human rights gains have been pronounced (Jewish emigration from the USSR in recent months has been at annual rates of 80,000, compared to annual emigration rates of 1000 or less for most of the 1980's). They also point to progress in arms talks, in regional issues, and in other aspects of the relationship and ask why trade is beginning to lag further behind.

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In the September Working Group of Experts meeting and in other meetings, the Soviets have pressed for U.S. policy changes in specific areas. At the JCC they can be expected to seek U.S. agreement to following:

1. Soviet GATT membership
2. Relaxation of export controls
3. Permanent and unconditional MFN in the U.S. market
4. Revisions to the bilateral tax treaty
5. Negotiation of a bilateral investment agreement
6. Negotiation of a bilateral trade agreement
7. Establishment of a permanent working group on economic issues.

Proposed positions on these items for the U.S. delegation to the JCC are as follows:

1. Soviet GATT Membership -- The U.S. delegation should reiterate that the United States does not believe that Soviet membership or association with the GATT at this time would serve the interests of GATT members or of the international trading system based on market forces and price mechanisms. This opposition is based solely on economic and technical grounds; it appears to the U.S. side that the USSR trading system is, at this time, incompatible with the market-oriented philosophy embodied in GATT rules.
2. Export Controls -- The U.S. delegation should stress that U.S. interest in expanding U.S.-Soviet trade is limited to non-strategic goods and services, and that it is fundamental in all consideration of U.S.-Soviet trade that our national security interests must remain paramount. The U.S. purpose is to prevent the transfer of sensitive technology, not shut down trade; and the U.S. has been pursuing a policy of eliminating controls not contributing to our national security.
3. Permanent MFN -- In recent meetings, Soviet officials have been saying that temporary, one year at a time, MFN is insufficient to build business confidence; and that the USSR is not interested in a temporary waiver under Jackson-Vanik.

The U.S. delegation should reiterate the President's statement that should the USSR codify its emigration laws in accord with international standards and implement its laws faithfully, he is prepared to work with Congress for a temporary waiver of the Jackson-Vanik Amendment. This would be a one year at a time waiver. The delegation should stress to the Soviet side that no alternative exists, and that continuous MFN for the USSR is not an option at this time. The delegation should encourage the Soviets to implement codification of their promised emigration law as soon as possible so that the process of working with Congress on a temporary waiver may begin sooner rather than later.

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4. Bilateral Tax Treaty -- The USSR wants to negotiate a new bilateral treaty for the avoidance of double taxation, updating the existing treaty (signed in 1973). One of the Soviet interests is to have the treaty cover joint ventures.

The U.S. delegation should inform the Soviet side that the United States agrees the treaty should be updated. We would like to conform the US-Soviet treaty to our other tax treaties, and note that recent Soviet treaties with certain other countries are similar to our model structure. It is in our mutual interest to have a new bilateral tax agreement which would include coverage of joint ventures. The U.S. delegation should tell the Soviet side that Treasury's Office of International Tax Policy is ready to begin bilateral discussions and negotiations.

5. Bilateral Investment Agreement -- The Soviet delegation to the September Working Group of Experts proposed that both sides agree to begin negotiating a bilateral investment protection agreement. They were told that the U.S. side would respond to this proposal at the December JCC.

The United States recently offered to Hungary and Poland to begin negotiating comprehensive business and economic agreements which would include investment protection provisions. U.S. companies are increasingly interested in an investment protection agreement, for Western investment in the USSR is outpacing Soviet development of a legal base to regulate and protect foreign investment. Britain, W. Germany, Belgium, and Finland are among the countries that have already concluded investment protection agreements with the USSR, but these agreements are not as comprehensive as most in the United States would want. The ability and willingness of the USSR to enter into the rigorous type of agreement the U.S. would want is unknown.

The U.S. delegation to the JCC should state that it is premature to enter into negotiations on a bilateral investment protection agreement at this time, but that the U.S. side is prepared to form a bilateral working group to explore conditions for foreign investment in the Soviet Union, exchange information on investment policies and treaties of each country, and to better determine if an investment protection agreement of a type which would be mutually acceptable is feasible and desirable. The working group would be a part of the JCC structure.

6. Bilateral Trade Agreement -- The Soviets are aware that the United States cannot enter into a trade agreement with the USSR until a waiver is granted under the Jackson-Vanik Amendment. Recognizing that perhaps 3-4 months would be required to negotiate an agreement, the Soviets want to start negotiating as soon as possible, rather than waiting until a waiver.

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The U.S. delegation should inform the Soviet side that we cannot begin formal negotiation of a trade agreement until the conditions the President has stipulated for a waiver have been met and the President has announced to Congress his intention to waive temporarily the Jackson-Vanik restrictions on the USSR. The U.S. delegation should further inform the Soviet side that the United States is willing to form a working group under the JCC to begin considering on an informal and preliminary basis what issues should be addressed in a bilateral trade agreement, and to exchange ideas on the form which an agreement could take.

The delegation should stress that this positive step is intended to reduce the total amount of time required once both sides are actually ready to begin formal negotiations, but that the discussions in the working group will not in themselves constitute negotiations.

7. Permanent Working Group -- The Soviet Foreign Economic Commission recently proposed that a "continuing" working group be established to discuss bilateral economic issues. As viewed by the Soviets, this group would be multi-agency, sufficiently high-level to make decisions and bilateral agreements, and would meet frequently to consider the spectrum of economic issues.

The U.S. delegation should state that we are not prepared to form a new bilateral economic group, but that the JCC's Working Group of Experts, which was originally established in 1974 to discuss economic matters, could meet on a more frequent basis than in the past. The delegation should state that both sides should encourage a broad range of agencies and ministries to participate in the meetings of the Working Group of Experts.

TRADE PROMOTION AND BUSINESS FACILITATION

The U.S. delegation should seek Soviet agreement to the following steps to facilitate U.S. exports and U.S. business in the USSR:

Consumer Initiative -- The U.S. should seek Soviet agreement to a program aimed at increasing the importance of the consumer sector in bilateral trade. Soviet consumer officials would visit the United States in a series of exploratory buyer missions, U.S. trade missions would be planned, and both sides would work to collect and distribute information on market research and on prospective buyers and sellers through a special "clearinghouse".

Joint Venture Seminar -- The U.S. delegation should seek Soviet agreement to hold a seminar in the United States featuring Soviet policy officials and specialists to provide more information to U.S. business on developments and plans in this area.

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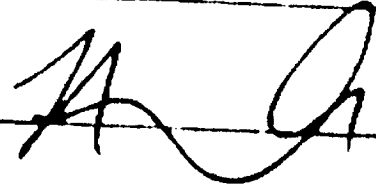
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CIA
TreasuryMr. H. Lawrence Sandell
Mrs. Emily L. Walker4-1111
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REMARKS _____

S.S. Officer



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MEMO ON PCC MEETING

| TO Agency | DELIVER TO | Extension | Room No |
|-------------|--------------------------|-----------|----------|
| OSD | Mr. Robert S. Schwartz | 456-2224 | 6-FW (W) |
| JCS | Col. George P. Cole | 697-8388 | 3E880 |
| Source | Brig. Thomas A. White is | 698-5066 | 2E865 |
| (Signature) | Mr. Patricia Corcoran | 447-7771 | 542 |
| (HSTR) | Mr. Sue Arhson | 447-7771 | 2004 |
| | Mr. Gary Edson | 395-6850 | |

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REMARKS Please call for info. re. 12

James J. [Signature]